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TAGS: PINR ECON ETRD EC CO
SUBJECT: Ecuador Likely to Lift Colombian Safeguards as Agreed; May Seek Extension of Global Safeguards

REF: A) STATE 92995; B) BOGOTA 2817; C) QUITO 509 (AND PREVIOUS)

CLASSIFIED BY: Andrew Chritton, Deputy Chief of Mission, State, EXEC; REASON: 1.4(B), (D)

¶1. (U) This cable is in response to questions posed in ref A regarding Ecuadoran safeguards on imports of Colombian products.

Summary

¶2. (C) Officially the GoE denies its safeguard actions against Colombian products were politically motivated, although a Ministry of Industries and Productivity official acknowledged the decision-making process for trade policy is undeniably open to political pressures. Analysts outside the government point to inconsistencies in GoE actions in arguing political rather than economic interests formed the basis of the safeguard action against imports from Colombia. Nonetheless, the GoE appears likely to comply with an agreement with Colombia for a phased elimination of these safeguards, beginning in October. A timeline for elimination of the global safeguards imposed in January 2009 is less clear. The GoE appears intent for the time being on maintaining an import safeguard option for dealing with balance of payment constraints. End Summary.

Ecuador Likely to Lift Colombian Safeguards as Agreed

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¶3. (C) Publicly, government officials claim the GoE's July 10 imposition of exchange rate safeguards on imports from Colombia was prompted only by the negative impact the devaluation of the Colombian peso had on Ecuador's competitiveness. While not admitting to political motivation for the safeguards, in a September 16 meeting with Econoff, Ruben Moran, Under Secretary for Trade and Investment in the Ministry of Industries and Productivity, acknowledged that deliberations by the GoE's trade council, COMEXI, necessarily are subject to political considerations. Moran noted the diverging policy views held by some ministries that comprise COMEXI, as well as the President's ability to shape deliberations through his representative, Minister of Coordination of Production Nathalie Cely, who presides over COMEXI meetings.

¶4. (C) In discussing specifics about the safeguards, Under Secretary Moran confirmed that an agreement had been reached with Colombia on the phased elimination of the restrictions, as described in ref B, and that the GoE had informed the Andean Community (CAN) Secretariat of the plan. According to Moran, the CAN decisions confirmed Ecuador's right to apply safeguards in circumstances involving the effect on competitiveness of currency devaluations, but sought to limit the scope of the safeguard

action.

¶5. (C) Moran explained that the GoE's current goal was to reduce imports of the affected products to 2007 levels; he did not identify any overall balance of payment or trade deficit objectives. After complying with the CAN ruling and eliminating safeguards on around one-half of the 1,346 covered tariff classifications in mid-August, the GoE divided the remaining products subject to safeguards into three groups depending on how long it was estimated restrictions would be necessary to reach the import reduction goal: 60 more days (mid-October), 120 days (December) or 180 days (February). Moran expressed cautious optimism that imports from Colombia would remain stable at current levels, enabling the GoE to meet its objectives and comply with the planned elimination of the safeguards.

¶6. (SBU) Carol Chehab, an analyst at a local think tank, Observatorio de Comercio Exterior, conveyed no doubt that the safeguards were politically motivated given current tensions in the Ecuador-Colombia relationship. In drawing her conclusion, Chehab noted that the devaluation of similar magnitude and timing of Peru's currency did not prompt the GoE to impose any restrictions on imports from that country.

¶7. (U) According to statistics supplied by the Observatorio de Comercio Exterior, imports of products from Colombia covered by the initial safeguard action did grow by 62 percent in 2008 from around $383 million to $622 million and accounted for about one-quarter of Ecuador's total imports of these products. The overall level of imports from Colombia rose by 20 percent in 2008 to $1.8 billion following a slight decline in 2007.

¶8. (U) Although the safeguard action has reduced the level of imports entering from Colombia this year, exports have also declined resulting in only a slight improvement in Ecuador's bilateral trade deficit. Between January and July 2009 imports from Colombia decreased by 11 percent, compared with the same period in 2008, while exports declined by 16 percent. The bilateral trade deficit for the first seven months of this year is $456 million, compared to $465 million in the same period last year.

GoE to Maintain Global Safeguards Option For Now

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¶9. (SBU) While Moran was willing to opine on the probable elimination of the safeguards being applied to products from Colombia, he was more reticent on the prospects of lifting Ecuador's global safeguards, which were applied in January 2009 (ref C). According to Moran, the GoE hoped to reduce the imports of products covered by the measures by $1.5 billion this year and that the GoE would probably meet its target.

¶10. (C) However, when pressed on eliminating the safeguards, Moran stated that an internal GoE discussion of whether or not balance of payment conditions would warrant actions to try to extend the measures would likely take place in December or January. He noted that with the use of the dollar as the country's currency, the GoE has limited tools with which to address balance of payment pressures that result from trade deficits coupled with simultaneous downward pressure on remittances, and increased capital outflow.

¶11. (C) Moran added that the GoE has no plans to significantly modify the existing safeguards before then, with one exception. Moran said he had just received a directive from Coordinating Minister for Production Cely to review "what might be possible" in terms of providing some relief from the $10 specific tariff safeguard that is being applied to the shoe sector. This may be the result of efforts by U.S. company Payless, which has approached the GoE on a number of occasions seeking a modification of the shoe safeguard.

¶12. (U) Ecuador ran a $1.1 billion trade surplus in 2008 on exports valued at $18.5 billion and imports worth $17.4 billion. However, Ecuador started running monthly trade deficits in

September 2008 due to a combination of increasing import values and declining export revenue, largely resulting from falling petroleum prices. The country is running a trade deficit of about $670 million for the first seven months on 2009, based on $7.1 billion in exports and $7.8 billion in imports. The monthly deficit began shrinking this past February and small surpluses were recorded in April, June and July, despite a continued decline in exports. Ecuador's exports between January and July 2009 declined by almost 41 percent compared to the same period in 2008, while imports have decreased by around 17 percent. Remittances declined by 21 percent in the first two quarters of 2009 compared with the same period in ¶2008. The GoE recorded an outflow of $517 million in the country's capital account in the first quarter 2009 compared with a $227 million outflow for all of 2008. International reserves decreased to $2.6 billion in May 2009 before rebounding somewhat to $4.4 billion by September.

Comment

¶13. (SBU) The GoE appears to have taken seriously its need to comply with the CAN decisions and its agreement with Colombia. Likewise, Ecuador's recent willingness to tentatively discuss an improvement in relations with Colombia supports the contention that the GoE will likely follow through with elimination of the safeguards by February. Nonetheless, should the bilateral relationship take a turn for the worse and/or the trade balance deteriorate, it is conceivable that the GoE would seek a means of justifying a continuation of the measures. On the global safeguards, a timeline for elimination is less clear given the GoE's intention of maintaining for the time being an import safeguard option for dealing with existing and potential balance of payment constraints, and for potentially addressing the interests of those within the GoE who may wish to pursue import substitution

policies.
CHRITTON